

A Colony, A Legacy, A Future

Matanuska Maid Dairy

2005 Annual Report





Cover photo: Where it all began, a view of the original Cooperative creamery building circa 1940, Palmer, Alaska. The building has since been destroyed by fire but the water tower still stands as a landmark and testament to Colony days.

SEVENTY YEARS

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In February 1939 the Service was secured, the 70th for Mr. [Name] Having no physical [Name] but being a group of men elected to manage & direct the affairs of the Co. [Name]. That we hope to have [Name] in the future.

Until this time all the Co. [Name] amounted to was an ^{understanding} agreement between the G. R. P. C. officials &

Above: Early beginnings (1939) of the Matanuska Valley Cooperative Association are reflected here in this journal excerpt written in pencil on school tablet paper.



1936

Farmers settling in the new Colony near present day Palmer formed the Matanuska Valley Farmer's Cooperative Association.

Cooperative opened a creamery plant, processing most of the milk into butter.

1940

Ice cream production began.



1945-1950

To meet growing demand for fresh milk, the Cooperative purchased the Eastside Dairy in Anchorage; bottled milk there for 5 years.

Introduction — **About Matanuska Maid Dairy**

Twenty years ago, the prospects for Alaska's agriculture looked bleak.

With the Point McKenzie/Delta Junction dairy farm experiences having soured and Matanuska Maid in bankruptcy, it looked to everyone except die-hard optimists that Alaska crop and dairy farming couldn't make it on its own and achieve basic self sufficiency.

Today, agriculture is more diverse than ever. Despite continued challenges, including the loss of important farms and farm lands, activity in Alaska agriculture contributed more than \$50 million last year to the health and financial stability of the state. Matanuska Maid is perhaps the most tangible evidence of that state of health and high-value growth.

History: Hardy Colonists, Healthy Start

The saga of the Matanuska Colony is torn from the pages of a John Steinbeck novel. It was 1936 and, in the midst of the Great Depression, 900 individuals escaping starvation on farms in the upper Midwest volunteered to relocate to what today is Palmer.



Photo: Colonists moving from tents to new homes in 1936. Courtesy of Hewitts Photo Shop

From seeds of disaster sprouted hope for these families – a fresh start on fertile ground, aided by a homestead parcel and low interest loans provided by the federal government. The hardy newcomers who persevered the first tough years began a cooperative form of governance and commerce – tending to business while breaking in the land.

Through back-breaking work, the wild Valley floor soon yielded enough bounty to begin selling food and dairy products to locals in Palmer and Anchorage. The Colonist's output even gave a boost to the military as it fortified America's northern flank during World War II.



1951

Palmer plant remodeled to process all dairy products. Anchorage facility maintained as distribution center.

1955

Mat Maid moves distribution center to facility on Northern Lights Blvd.



1960

National recognition, the "Blue Ribbon Award," given to Mat Maid for superior ice cream.

The Matanuska Maid's skater girl logo came into being in the mid 1950s, sketched with popular Olympic gold medalist and film star Sonja Henie in mind. The skater girl logo, inspired by then General Manager, Jim Wilson, is still Alaska's most enduring brand image. It has, in one form or another, continued to grace Matanuska Maid product packaging ever since.

Supply and Demand for Dairy Products

Over the years, Alaska's appetite for dairy products has consistently outpaced the supply available from in-state farms. To keep up with local demand, Matanuska Maid expanded its operations in Anchorage. A 43,000 square foot manufacturing plant and distribution center was completed after the 1964 earthquake. That facility, now outgrown and surrounded by a dense midtown metropolis, continues to serve as the corporate hub for Matanuska Maid.

Matanuska Maid's earliest products included whole milk, butter and ice cream. Today the company has a vastly expanded menu of dairy and non-dairy products, including orange juice and bottled water.

The choice to diversify the company's family of products continues to be financially necessary and strategically important. Diversity has become a hallmark of Matanuska Maid, providing consumers with a healthy new mix of high quality products with sufficient profit margin to balance the uncertainties and low margins in the commodity side of the business, i.e. milk. This strategy is sometimes misunderstood, but it is crucial for the company's long term financial security.

This year marks the 70th anniversary of the Matanuska Maid brand. The co-op form of governance has ceded to a corporate one. Likewise, the production side of the business (the farms) is now separate from manufacturing and distribution. But there exists today in the company, and its 44 employees, a spirit and a culture that descends directly from those hard working Colonists.





1962

Matanuska Maid was adopted as the Cooperative's creamery company name.

1965

Northern Lights facility expanded with 43,000 square foot dairy processing facility.

1983

Considerable Cooperative and farm debt to Alaska's Agriculture Revolving Loan Fund (ARLF), plus national grocery retailers flooding the market with heavily discounted "outside" milk, brought on management's decision to declare bankruptcy.



Matanuska Maid continues to capture "top-of-mind awareness" with the public, and better than a 40% market share, because customers can see and taste the difference in its products. It is a taste of sweet freshness, blended with good value. When people buy Mat Maid, they're also buying into the idea of self sufficiency, local pride and entrepreneurial gusto.

Corporate Background

The Creamery Corporation, doing business as Matanuska Maid, is wholly owned by the State of Alaska. The State assumed ownership in 1986, due to bankruptcy, and did so by exchanging the value of Mat Maid's secured loans for the operating assets of the old Cooperative. Since then, the company has been run independently, like any other private, medium-sized Alaskan business. During those 20 years of State ownership, the company's management recovered lost market share, built equity in the corporation, and kept pace with necessary infrastructure and product improvements.

Board of Directors – Creamery Corporation has its own board, responsible for direction and guidance of Matanuska Maid.

Matanuska Maid is also subject to the decisions of the Board of Agriculture and Conservation (BAC). The BAC is the overseer of the Alaska Agriculture Revolving Loan Fund (ARLF), to whom the co-op's loans were in default at bankruptcy. The Creamery Corporation

was formed by the BAC using a private business model, with the goal of Matanuska Maid ultimately becoming independent of the State.

At the inception of the Corporation, a stock certificate representing one thousand shares was issued to the ARLF. The BAC is the sole

shareholder for the State in the corporate affairs of the company, thus, BAC board of directors' decisions also affect the future of Matanuska Maid.

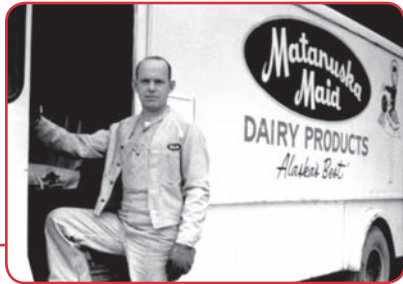
Business Facts

The State's expectation was that Matanuska Maid would be self sustaining, requiring no subsidy from taxpayers. That expectation has not only been met, but exceeded. Since 1988, when the company was emerging from bankruptcy, the State has made no further investments, and the management has requested none. Rather, Matanuska Maid has paid its own way, struggling in some years but nevertheless meeting its obligations to its shareholder, as well as its employees, customers and consumers.

In fact, savvy management has netted the company enough revenue to reinvestment more than \$8 million over the years, for physical plant and equipment upgrades. Profitable throughout most of that time, Matanuska Maid has continued to pay local producers higher prices for their milk than anywhere else in the US, except Hawaii. Thus, directly and indirectly,

1985

New dairy processing equipment adds capabilities to produce additional product lines.



1986

Dairy begins production of cultured products and sale of cottage cheese and sour cream.

With financial and market challenges under control, and sales rebounding 60% to over \$10 million, Mat Maid happily celebrated its 50th birthday.



1987

Raw milk production increased 42% from 1985-1987; Mat Maid purchasing the production of approximately 2400 local dairy cows.

Matanuska Maid has been a net contributor to the State's budget, adding good jobs for Alaskans and providing the means for Alaska's agriculture industry to sustain itself.

personnel or retirement system. Instead, the company provides for salaries compensation, and benefits from its own operating revenues.

In caring for its corporate assets, Matanuska Maid has invested in the headquarters building on Northern Lights Boulevard in Anchorage, which houses manufacturing and distribution equipment for milk, dairy foods, and other beverages. Additionally, the company operates a bottle manufacturing plant in Palmer, rents a repair shop to maintain a fleet of trucks, and has rented off-street storage to minimize the impact on parking near its Anchorage facility.

Employees and Union Membership

As of June 15, 2006 there were 44 regular employees of Matanuska Maid; 30 who work at the Anchorage facility; 10 are employed at the Palmer plant, and 4 who work "in the field" as product merchandisers.

All Matanuska Maid employees, including management, are employed directly by the company and not compensated whatsoever by the State's

Matanuska Maid Board of Directors:

Dr. James V. Drew, Chairman

Fairbanks, Alaska
Dean Emeritus, University of Alaska
School of Agriculture and
Land Resources Management

Ms. Rhonda P. Boyles - Vice Chair

Fairbanks, Alaska
Prior Mayor of Fairbanks, Private Business

Mr. John Werner - Member

Anchorage, Alaska
Private Business

Mr. Edward D. Kern - Member

Palmer, Alaska
Retired, State of Alaska Division of Agriculture

Mr. Pete Alexion - Member

North Pole, Alaska
Retired Military, Private Consultant

Mr. Carrol Martin - Member

Soldotna, Alaska
Private Business

Mr. Ron E. Long - Member

Seward, Alaska
Private Business and Consulting

The average length of employment at Matanuska Maid is 9 years. Among the management team, the length of stay is over 18 years. Plant manager, Gary Nelson, has been with the company for 31 years. Director of Sales, Delene Bartel, has been at Matanuska Maid for 21 years, as has CEO and President Joe Van Treeck. Terry Clark, Director of Special Projects, is in his ninth year and corporate Secretary/Treasurer and Comptroller, Linda Bowers, has 8 years with the company. Those listed above constitute Mat Maid's entire management staff.

Matanuska Maid has a long, constructive relationship with the Teamsters Union, Local Chapter 959. Currently 22 employees in Anchorage are members of that union, employed in the creamery, warehouse, or as delivery drivers.

Economic Factors In 2005, the company generated \$14.6 million in revenue and posted an operating loss of \$179,590.

1987

Recognizing Americans' trend to consume more healthy foods, Mat Maid introduced a line of 12 low fat fruit yogurts in June.

A new marketing program started selling advertising on the side panels of ½ gallon milk cartons. Matanuska Maid was adopted as the Cooperative's creamery company name.

1988

Low fat cottage cheese was added to product lines.



1989

The "Creamery Corporation" was established d.b.a. Matanuska Maid Dairy.

ARLF Board named Joe Van Treeck to his current position of President and CEO of Matanuska Maid Dairy.



Several key factors contributed to the Company's first loss in 8 years:

- Higher energy cost due to hurricanes, war, etc.
- Price decisions by retail competitors that put Matanuska Maid at a price disadvantage of up to \$2 per gallon. This alone accounted for over 5% of the reduction in sales between 2005 and the year before.
- Woman, Infants and Children's (WIC) policy decision (largely due to the pricing discrepancy mentioned above) negatively effects Matanuska Maid product sales.

On the retail front, new competition means new product

Experienced Management

Joseph W. Van Treeck
President/CEO
Twenty-one Years

Linda K. Bowers
Secretary/Treasurer and Comptroller
Eight Years

Gary Nelson
Plant Manager
Thirty-one Years

Delene Bartel
Director Sales
Twenty-one Years

Terry Clark
Director of Special Projects
Nine Years

placement opportunities as well and a better chance to see Matanuska Maid products more competitively priced.

Management and staff have worked hard to control the dramatic run up in the cost of goods resulting from the aftermath of last year's hurricanes. Those events affected our cost of delivery, manufacturing and the associated freight expenses due to higher fuel prices. The results of ongoing cost saving initiatives should result in Matanuska Maid being better able to profitably compete in the markets it serves.

The year 2006 will be a year of rebuilding sales and regaining profits. The future looks bright, both for Matanuska Maid and the State's economy. A boom in public and private construction, coupled with gas pipeline negotiations, military base enhancements and bridge construction across Knik Arm adds up to a healthy economy and new opportunities for Mat Maid.



Steve and Barbara Hamilton, Retired Matanuska Valley milk producers and long-time supporters of Alaska's dairy industry, pose in front of their family farm in Palmer, Alaska.

Finally, marketing directly to the consumer will continue to be an important strategy to increase sales. One of 2006's platforms will be the debut of our freshly updated corporate logo, prominently displayed on our product packages, delivery equipment and correspondence. The change will remind us of our Colony roots and our commitment to unmatched quality.

The combination of consumer product loyalty and our commitment to quality makes Matanuska Maid a force to be reckoned with.



1989

To meet the growing customer demand for healthier products, Mat Maid introduced a “Light Plus” line of 1% milk.

Mat Maid became the second dairy in the nation to introduce a sugar free non-fat yogurt - Glacier Creme; it was the lowest calorie product on the market.

1990

The Dairy began selling gallons of milk in yellow HDPE plastic containers, which had been shown to preserve more vitamins and maintain a better tasting product.

1993

Mat Maid began producing plastic gallon containers for in-house and outside sales.



Mission and Guiding Principles

Corporate Mission:

To be a low cost provider of premium quality dairy, food, and beverage products to consumers both in Alaska and beyond its borders, while maintaining a market for locally produced milk.

Guiding Principles:

1. Quality Comes First

The reason for Matanuska Maid’s success is the commitment we make to quality. Customers say that our products taste sweeter and fresher. We will never compromise that principle in favor of economy.

2. Build Value; Customers Will Follow

Alaskans like to support local companies that supply quality local products. Matanuska Maid will continue to be a consistent brand with a tantalizing array of premium products at competitive prices.

3. Leadership Fosters Stability

Companies reach the age of Mat Maid only if they can transcend the challenges of generational changes. Matanuska Maid has veteran employees and board directors who have decades of experience in Alaska’s industry. The next generation of leadership is already working here, being well trained to continue a tradition dating back to the Matanuska Colony, in 1936.

Matanuska Maid will also continue to be a leader in the agriculture industry, seeking accord and synergy

with disparate parts of the supply chain, adding a voice of experience and encouragement on the subjects of “value-added” and “export.”

4. Thinking Outside the Carton

Matanuska Maid will employ inventive strategies to remain visible, desirable and profitable. We continue to pioneer new products and concepts that separate us from competitors, even though our marketing budgets pale by comparison. We will continue to invest vigorously in R&D and marketing, because competition is keen and our customers watchful.

5. Generosity and Gratitude

We are ever grateful for our employees and suppliers, the backbone of Matanuska Maid’s success. Without them, we could not possibly meet public expectations. As a matter of policy and practice, Matanuska Maid serves those who serve us - with respect, good compensation, and a safe, comfortable work environment.

Likewise, we are grateful for our loyal Alaskan consumers. We show that appreciation through our quality assurance program. We extend that gratitude by supporting communities in a variety of ways: student scholarships, athlete programs and donations to charitable organizations striving to bring honor, dignity and appreciation to this Great Land.

1994

Accepted as a member of SECO, a member-owned non-profit purchasing cooperative.

Began custom co-packaging of Alaskan water in gallon containers.

SECO

1995

The first in the state, Mat Maid introduced refrigerated orange juice as a new product line; the juice was made with fresh frozen orange juice concentrate and pure Alaskan water.

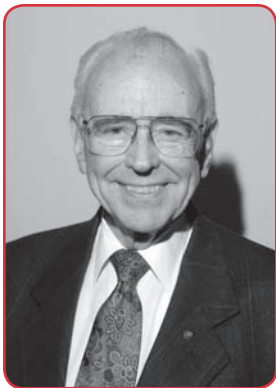


Began marketing milk, juice, water and yogurt in single serve 4 oz. containers for institutional markets, e.g. airlines, hospitals, schools and military.

The year marked a decade of increasing sales, which almost doubled 1985 sales to \$14.5 million dollars.

Chairman's Message

Dr. Jim Drew, Chairman of the Board of Directors, Creamery Corporation, d.b.a. Matanuska Maid



First, congratulations Matanuska Maid, for your longevity. Being born in Alaska 70 years ago gives you bragging rights as a Pioneer. This anniversary gives all Alaskans the occasion to applaud our "Local Dairy" for its leadership, its commitment to quality and its economic resiliency.

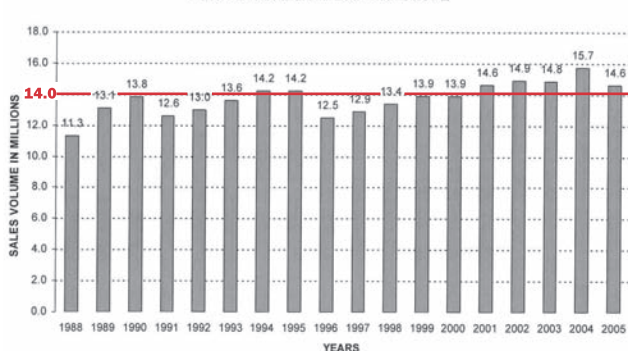
For over three generations, Matanuska Maid has been the largest and most visible link to our agricultural industry in Alaska. It is also the best selling; Alaskans continue to "vote" with their wallets each day, preferring Matanuska Maid products to other brands.

The loss of valuable farm land and successful farms in the Valley has reduced the amount of locally produced milk. Without farms and without other important dairy infrastructure, such as the meat processing plant in Palmer, the prospect for dairy agriculture in Alaska continues to be less stable than desired.

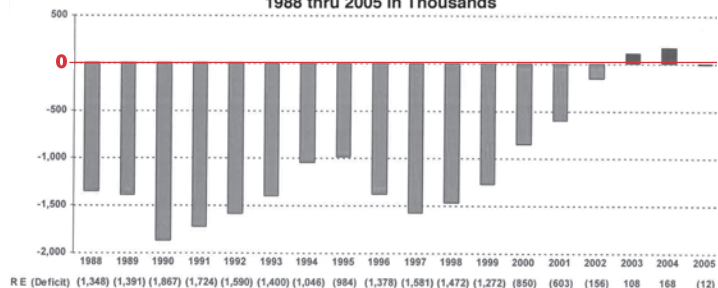
In 2005, Matanuska Maid purchased all available milk from farms in-state, but local supply constituted only 40% of what was necessary for the company to meet market demand. Matanuska Maid succeeds because it has created a devoted customer base. Quality products, good consumer relations, vigorous sales efforts and consistent marketing are all important ingredients for a successful brand. Because of these things, Matanuska Maid continues to hold a strong market share in Alaska against outside brands many times larger. Some products, including yogurt and water, have become popular in other states and countries as well.

It is equally important to remember that consistent, capable management during the past 20 year has allowed matanuska maid to erase a debt of more

PROVEN SALES PERFORMANCE



Reduction of Matanuska Maid Dairy Retained Earnings (Deficit) 1988 thru 2005 In Thousands



1996

Carrs Quality Centers, Alaska's largest employer and grocer, expanded its Mat Maid distribution area, to include Juneau.

Introduced a new line of fat-free yogurt.

Began custom packaging water in clear PET plastic bottles for local and export markets.

Introduced Glacier Yo™ cultured drink in Southern California.

Florida Citrus Commission recognized Mat Maid's production of high quality orange juice and licensed the company to use the nationally recognized "Orange Tree" symbol on all orange juice packaging.

The company celebrated its 60th Anniversary.



than \$3 million,
begin to build equity
and continue to
generate sales of
\$14 to \$16 million
per year.

corporation. Doing so will allow it to attract outside investment, stimulate industry leadership and create new product innovations.

Finally, I'd like to say thank you and congratulations to those who deliver the promise of Matanuska Maid day in and day out, its employees. You're the reason the company has such a great reputation, and a great future.

A handwritten signature in black ink that reads "James V. Drew".

James V. Drew, Chairman

To be successful for another 70 years, Matanuska Maid must address immediate challenges:

- The company is still owned by an arm of state government, which limits its ability to obtain needed capital for growth.
- Our aging facility in the heart of Anchorage has neither sufficient room nor the capability to secure expanded boundaries beyond the building's present configuration.
- Taking the company private could attract the needed financing to rebuild and retool in a less congested location on Anchorage's periphery.
- New financing would also allow for expansion of product lines and product volume. With its bottled water brand, Clearly Arctic,™ Matanuska Maid has also demonstrated potential for growing the industry by exporting Alaska brands that are healthy sustainable, and profitable.

I'm optimistic that the State's future can be more economically diverse than it is today. Given Mat Maid's leadership in product development, it's clear the company has a role in economic diversity, especially in the food and beverage industry. Having fulfilled its fiscal obligations to the State, Matanuska Maid is a prime candidate for becoming a private



Glacier Yo, an Asian probiotic beverage represents Matanuska Maids' first entry into markets outside of Alaska in 1996.

1997

Mat Maid continued introducing more reduced calorie products to its consumers, including low fat chocolate yogurt, sugar-free yogurt, and a Light version of its Premium Egg Nog.

1998

Purchased blow-molding equipment to manufacture PET plastic bottles; began custom packing water in small bottles.



2000

Trademarked its brand of Clearly Arctic™ bottled water.

President and CEO Message



I'd like to echo what our Chairman said about Matanuska Maid's employees. They've made the difference for me as a

leader and for us a company. It is they who deserve the lion's share of credit for our honored place in the market, and I'm very grateful for their contributions.

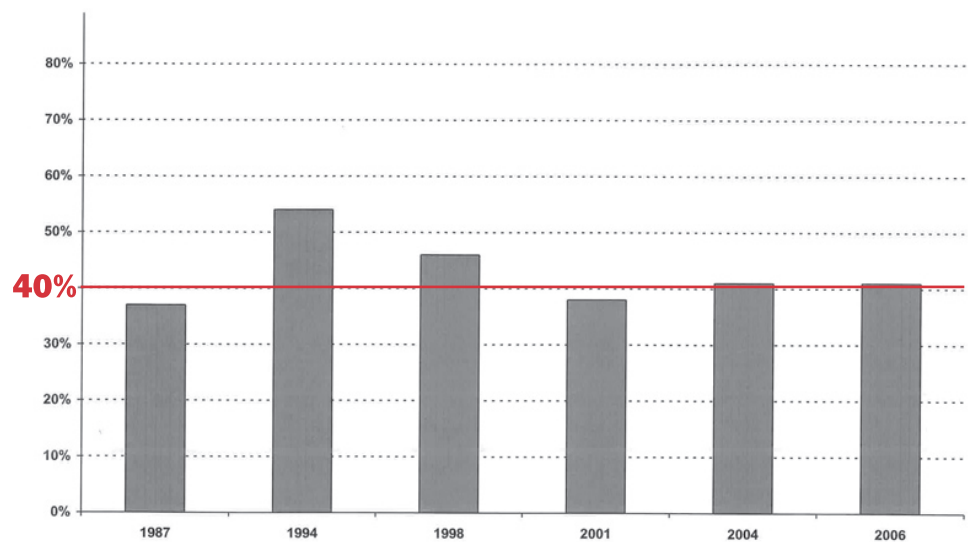
Looking at the production numbers always leaves me with a sense of awe and appreciation for what a dedicated team of employees, contractors and suppliers are able to accomplish... even in the midst of some difficult circumstances.

Some highlights from 2005, a full year of hard work:

- 37 million pounds of milk and juice processed
- 800,000 gallons of water bottled
- 4.8 million plastic bottles in various sizes manufactured
- Produced 8 million individual units of product for sale and distribution to retail and wholesale establishments

10

MATANUSKA MAID MARKETSHARE
Shopper preference - Dairy Products



- Forged a new contract with Cold Stone Creamery to provide ice cream mix for their Alaskan franchisees

Additional highlights fall into the following categories:

Plant Improvements:

- Rebuilt and put into service a new gallon bottle “blow mold” machine, culminating an 18 month project
- Retooled and retrofitted the existing “blow mold” machine and began producing ½ gallon plastic bottles
- Installed a filler, labeler, and case packer for the new ½ gallon bottle size in Anchorage
- Added cooling and air compressor system to support new capacity in Palmer

2002

Completed upgrades its fleet of delivery trucks.

Sponsored the painting of a cow on an "EXPRESS TRAFFIC" airplane, the first documented flying cow!



2004

Mat Maid continued its active support of healthy eating and living, and began its sponsorship of Alaska's Olympic medal winning cross-country ski racer Kikkan Randall.



To supply the growing demand for its PET bottles, the Palmer blow mold facility was expanded to add space for new equipment. Introduced milk packaged in 1/2 gallon yellow HDPE plastic bottles.



- Rebuilt a culture packing machine that allows application of

tamper proof sealed cartons

- Cultured products now have an inner tamper-proof sealing film versus the tamper-proof lid
- Began remodeling of plant cooler/freezer and installed a new ammonia evaporation unit in Anchorage
- Continued to maintain and upgrade our fleet of refrigerated vehicle tankers, trailers, and trucks

Marketing and Market Appeal:

- Our new logo is in place on most distribution vehicles and product packaging
- Matanuska Maid has kept a consistent, and commanding share of the market against heavy competition
- The company has consistent high ratings with the public
- A major retailer reported that Matanuska Maid cottage cheese outsells their own house brand!

Sales:

- A major retail outlet agreed to expanded space allowing for more Matanuska Maid products
- Awarded Kenai School District dairy products bid
- Awarded the Department of Defense Troop Issue dairy bid

- Matanuska Maid became the single source fresh milk provider to Elmendorf Air Force Base Commissary
- Contract discussions with Cold Stone Creamery in 2005 led to an award of their ice cream mix business in 2006. Anticipated volume to double or triple in the next year.
- Custom packaged water sales continue to increase. Customer orders to Korea, Japan, and China have

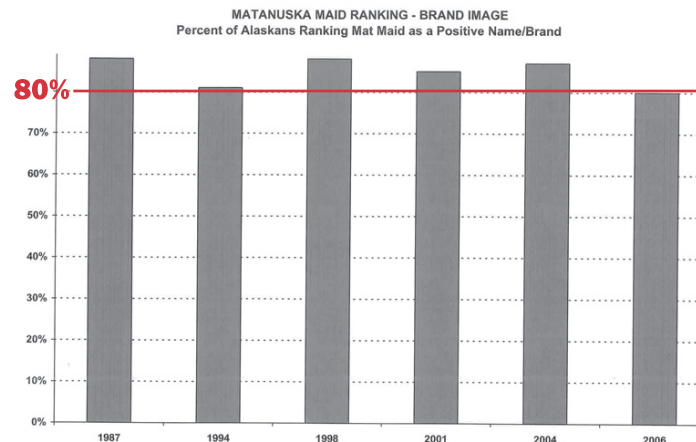
been made and shipped from our Anchorage facility.

- Bottle sales for our own use and that of third parties has increased the output from the Palmer operations

Customer loyalty and trust – these are the intangibles that fuel our success. To

thrive in a competitive marketplace, we must continue to engage our brains and hearts in the pursuit of that public trust. Beyond that, Matanuska Maid will remain competitive by continuing to develop exciting and healthy new products, seek new markets and opportunities to increase sales, and continue to research additional distribution channels outside the state.

After more than 20 years under State control and ownership, Matanuska Maid now needs to return to the private sector. As you review our financial performance, it may become evident that the company



2005

To celebrate the launch of Mat Maid's 70th anniversary in 2006, Mat Maid sold its Egg Nog in a replica of the 1940's classic "Skater Girl" carton.



Became a supporter of the Palmer Historical Society's Colony House Preservation Project Committee and its efforts to fund restoration of one of Mat Valley's historic buildings.



2006

Mat Maid will celebrate its 70th anniversary with new look packaging, special edition web site and a commemorative medallion promotion.

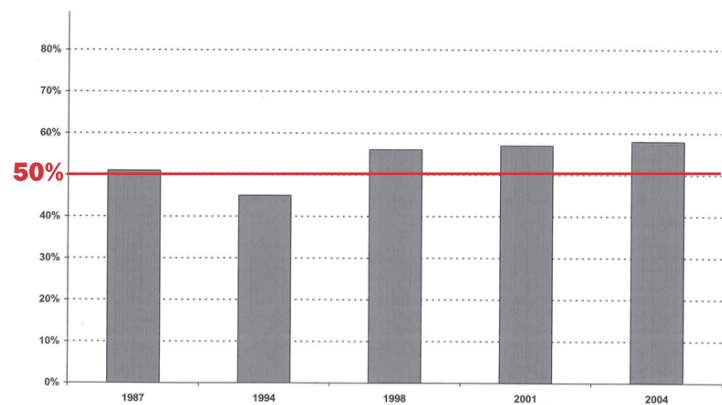
is not only positioned for this move, but it is necessary in order to access sufficient capital for future needs. Such financing would hasten the construction of a new processing and distribution facility at the outskirts of Anchorage, where food safety and security further enhance product quality. All of this will position us for growth and expansion in a burgeoning food and beverage marketplace.

During this transition, I will continue to do whatever I can to assure that our employees continue to have a safe and enjoyable workplace. To keep this kind of esprit de corps intact, it is critical for our mission that employees be supported with competitive wages and benefits, good training and the means to advance professionally. Enjoyment on the job is the best way to retain a quality work force. And it's a major ingredient in every product package that leaves our plant.

I cannot let the opportunity of this anniversary slip away without recognizing the contributions of our loyal customers and consumers. Matanuska Maid is deeply indebted to those who purchase our products and provide them ample space in their stores. Likewise, thanks to shoppers who continue to choose to support local production and processing with their purchases of Mat Maid products.

Finally, as a company, we continue to pay tribute to the hard working families, the Colonists, who beat back adversity and tackled the challenges of

Matanuska Maid Dairy Top of Mind Awareness
Who do you prefer when you think of dairy products?



agriculture in Alaska. They are our namesake and it is our responsibility to uphold their honor in everything we do.

Best Regards,

Joseph W. Van Treeck
President and CEO



SEVENTY YEARS

Financial Review-2005





THE CREAMERY CORPORATION
dba MATANUSKA MAID DAIRY

FINANCIAL STATEMENTS

Years Ended December 31, 2005 and 2004



CERTIFIED PUBLIC ACCOUNTANTS
A Professional Corporation

INDEPENDENT AUDITORS' REPORT

Board of Directors
The Creamery Corporation
dba Matanuska Maid Dairy
Anchorage, Alaska

We have audited the accompanying balance sheets of The Creamery Corporation, dba Matanuska Maid Dairy as of December 31, 2005 and 2004, and the related statements of operations and retained earnings (deficit), and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatements. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The Creamery Corporation, dba Matanuska Maid Dairy as of December 31, 2005 and 2004, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Sramek-Hightower, CPAs. APC

March 31, 2006

THE CREAMERY CORPORATION
dba MATANUSKA MAID DAIRY

BALANCE SHEETS
December 31, 2005 and 2004

ASSETS

	<u>2005</u>	<u>2004</u>
Current assets		
Cash and cash equivalents	\$ 510,194	\$ 452,982
Accounts receivable, less allowance of \$168,987 in 2005 and \$169,362 in 2004	1,594,803	1,743,900
Inventory	873,114	868,936
Refundable income tax	43,248	19,633
Prepaid expenses	27,360	66,181
Deferred income tax asset	<u>227,000</u>	<u>226,000</u>
Total current assets	<u>3,275,719</u>	<u>3,377,632</u>
Property, plant and equipment, net of accumulated depreciation	<u>3,016,949</u>	<u>3,089,386</u>
Capital lease assets, net of accumulated amortization	<u>375,286</u>	<u>530,554</u>
	<u>\$ 6,667,954</u>	<u>\$ 6,997,572</u>

LIABILITIES AND STOCKHOLDER'S EQUITY

Current liabilities		
Payable to milk producers	\$ 57,515	\$ 107,157
Accounts payable	743,034	696,675
Accrued payroll and related items	159,450	151,625
Accrued vacation and sick leave	339,165	331,467
Current portion of obligations under capital leases	<u>41,769</u>	<u>77,596</u>
Total current liabilities	<u>1,340,933</u>	<u>1,364,520</u>
Obligations under capital leases, net of current portion	<u>5,706</u>	<u>49,147</u>
Deferred income tax liability	<u>55,000</u>	<u>138,000</u>
Stockholder's equity		
Common stock, no par value; 1,000 shares authorized, issued and outstanding	-	-
Paid in capital	5,277,868	5,277,868
Retained earnings (deficit)	<u>(11,553)</u>	<u>168,037</u>
	<u>5,266,315</u>	<u>5,445,905</u>
	<u>\$ 6,667,954</u>	<u>\$ 6,997,572</u>

See accompanying notes and auditors' report.

THE CREAMERY CORPORATION
dba MATANUSKA MAID DAIRY

STATEMENTS OF OPERATIONS AND RETAINED EARNINGS (DEFICIT)
Years Ended December 31 2005 and 2004

	<u>2005</u>	<u>2004</u>
Sales	\$ 14,620,548	\$ 15,682,153
Cost of sales	<u>11,506,198</u>	<u>12,240,687</u>
Gross profit	<u>3,114,350</u>	<u>3,441,466</u>
Operating expense		
Delivery	1,674,158	1,612,531
General and administrative	924,772	955,614
Selling	<u>803,688</u>	<u>762,636</u>
Total operating expenses	<u>3,402,618</u>	<u>3,330,781</u>
Income (loss) from operations	(288,268)	110,685
Other income and expense		
Interest income	7,580	6,502
Gain (loss) on sale of property, plant and equipment	4,995	(3,627)
Interest expense	<u>(6,720)</u>	<u>(13,602)</u>
Income (loss) before income taxes	(282,413)	99,958
Income tax expense (benefit)	<u>102,823</u>	<u>(39,671)</u>
Net income (loss)	(179,590)	60,287
Retained earnings (deficit), beginning of year	<u>168,037</u>	<u>107,750</u>
Retained earnings (deficit), end of year	\$ <u>(11,553)</u>	\$ <u>168,037</u>

See accompanying notes and auditors' report.

THE CREAMERY CORPORATION
dba MATANUSKA MAID DAIRY

STATEMENTS OF CASH FLOWS
Years Ended December 31, 2005 and 2004

	<u>2005</u>	<u>2004</u>
Cash flows from operating activities		
Net income (loss)	\$ (179,590)	\$ 60,287
Adjustments to reconcile net income (loss) to net cash provided (used) by operating activities:		
Depreciation and amortization	522,662	486,116
Loss (gain) on sale of property, plant and equipment	(4,995)	3,629
Deferred income tax expense (benefit)	(84,000)	7,000
(Increase) decrease in:		
Accounts receivable	149,097	(32,131)
Inventory	(4,178)	(119,630)
Prepaid federal income tax	(23,615)	(6,310)
Prepaid expenses	38,821	(43,584)
Increase (decrease) in:		
Payable to milk producers	(49,642)	4,370
Accounts payable	46,359	196,095
Accrued payroll and related items	7,825	(12,920)
Accrued vacation and sick leave	7,698	13,322
State income tax payable	<u>-</u>	<u>(3,229)</u>
Net cash provided (used) by operating activities	<u>426,442</u>	<u>553,015</u>
Cash flows from investing activities		
Proceeds from sale of property, plant and equipment	4,995	7,500
Purchase of property, plant and equipment	(294,957)	(683,213)
Net cash provided (used) by investing activities	<u>(289,962)</u>	<u>(675,713)</u>
Cash flows from financing activities		
Payments on long-term capital lease obligations	<u>(79,268)</u>	<u>(111,149)</u>
Net cash provided (used) by financing activities	<u>(79,268)</u>	<u>(111,149)</u>
Net increase (decrease) in cash and cash equivalents	57,212	(233,847)
Cash and cash equivalents, beginning of year	<u>452,982</u>	<u>686,829</u>
Cash and cash equivalents, end of year	\$ <u>510,194</u>	\$ <u>452,982</u>

SUPPLEMENTAL CASH FLOW DISCLOSURES

Interest paid	\$ <u>6,720</u>	\$ <u>13,602</u>
Income tax paid	\$ <u>4,792</u>	\$ <u>42,210</u>

See accompanying notes and auditors' report.

THE CREAMERY CORPORATION
dba MATANUSKA MAID DAIRY

NOTES TO FINANCIAL STATEMENTS
December 31, 2005 and 2004

1. Summary of Significant Accounting Policies

Nature of Business

The Creamery Corporation (Company) was established by the State of Alaska on December 5, 1988 after acquiring the assets of Matanuska Maid Dairy by an offset bid at the foreclosure sale on November 29, 1985. All outstanding shares of the Company are held by the State of Alaska Agriculture Revolving Loan Fund.

The primary business of the Company is the operation of a creamery and bottled water operation in Anchorage, Alaska. The Company distributes milk and dairy products throughout Alaska and bottled water throughout the United States. The Company also operates a blow mold facility in Palmer, Alaska.

Use of Estimates

Management uses estimates and assumptions in preparing financial statements in accordance with generally accepted accounting principles. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenues and expenses. Actual results could vary from the estimates that were used.

Advertising Costs

Advertising costs consist of nondirect-response television, radio and newspaper advertising which are expensed as incurred. Total expense for the years ended December 31, 2005 and 2004, was \$432,237 and \$395,117, respectively.

Inventory

Inventory consists primarily of milk and dairy products, bottled water and packaging materials. These items are carried at the lower of cost or market value using the first-in, first-out method of accounting.

Depreciation and Amortization

Depreciation and amortization of property, plant and equipment, and assets under capital leases are computed over the estimated useful lives of the assets using the straight-line method for financial reporting purposes. Estimated useful lives vary from five to thirty years.

Income Taxes

Income taxes are provided for the tax effects of transactions reported in the financial statements and consist of taxes currently due and deferred taxes related primarily to differences between the basis of property, plant and equipment, vacation and sick pay, bad debts and charitable contributions for financial and income tax reporting. The deferred tax assets and liabilities represent the future tax return consequences of those differences, which will either be taxable or deductible when the assets and liabilities are recovered or settled. Deferred taxes also are recognized for alternative minimum taxes as well as operating losses that are available to offset future federal and state income taxes.

See auditors' report.

THE CREAMERY CORPORATION
dba MATANUSKA MAID DAIRY

NOTES TO FINANCIAL STATEMENTS
December 31, 2005 and 2004

1. Summary of Significant Accounting Policies, Continued

Cash and Cash Equivalents

Cash and cash equivalents consist of cash on hand and balances held in checking and savings accounts. Cash equivalents are stated at cost, which approximates market value.

During the year, the Company has money deposited with financial institutions that may exceed the federally insured limits.

Accounts Receivable

The Company extends unsecured credit to customers located throughout the State of Alaska. Accounts receivable are stated at the amount management expects to collect from outstanding balances. The Company provides for probable uncollectible amounts through a charge to earnings and a credit to a valuation allowance based on its assessment of the current status of individual accounts.

2. Inventory

As of December 31, 2005 and 2004, inventory consists of the following:

	<u>2005</u>	<u>2004</u>
Supplies and packaging materials	\$ 609,579	\$ 589,394
Finished products	114,253	116,093
Raw products	<u>149,282</u>	<u>163,449</u>
	<u>\$ 873,114</u>	<u>\$ 868,936</u>

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THE CREAMERY CORPORATION
dba MATANUSKA MAID DAIRY

NOTES TO FINANCIAL STATEMENTS
December 31, 2005 and 2004

3. Property, Plant and Equipment

As of December 31, 2005 and 2004, property, plant and equipment consist of the following:

	<u>2005</u>	<u>2004</u>
Building and improvements	\$ 3,412,182	\$ 2,961,084
Plant equipment	2,789,367	3,002,493
Land	668,300	668,300
Vehicles and delivery equipment	640,147	616,000
Office furniture, fixtures and equipment	112,444	112,444
Computer equipment and software	<u>93,122</u>	<u>80,733</u>
	7,715,562	7,441,054
Less accumulated depreciation	<u>(4,698,613)</u>	<u>(4,351,668)</u>
	<u>\$ 3,016,949</u>	<u>\$ 3,089,386</u>

Depreciation expense charged to operations for the years ended December 31, 2005 and 2004, totaled \$367,395 and \$275,288, respectively.

4. Capital Leased Assets and Obligations

The Company leases various types of equipment under capital lease agreements expiring through 2007. The assets and liabilities under capital leases are recorded at the lower of the present value of the minimum lease payments or the fair market value of the asset. The assets are amortized over their estimated useful lives.

Following is a summary of property under capital leases:

	<u>2005</u>	<u>2004</u>
Blow mold and air compressor	\$ 634,003	\$ 634,003
Vehicles and delivery equipment	533,251	533,251
Plant equipment	489,775	489,775
Computer equipment and software	<u>38,770</u>	<u>38,770</u>
	1,695,799	1,695,799
Less accumulated amortization	<u>(1,320,512)</u>	<u>(1,165,245)</u>
	<u>\$ 375,287</u>	<u>\$ 530,554</u>

Amortization expense for the years ended December 31, 2005 and 2004, totaled \$155,267 and \$210,828, respectively.

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THE CREAMERY CORPORATION
dba MATANUSKA MAID DAIRY

NOTES TO FINANCIAL STATEMENTS
December 31, 2005 and 2004

4. Capital Leased Assets and Obligations, Continued

Minimum future lease payments under capital lease obligations as of December 31, 2005, are as follows:

<u>Year Ended</u> <u>December 31,</u>	<u>Amount</u>
2006	\$ 43,761
2007	<u>5,812</u>
Total minimum lease payments	49,573
Less amount representing interest	<u>(2,098)</u>
Present value of net minimum lease payments	47,475
Less current portion	<u>(41,769)</u>
	\$ <u>5,706</u>

The imputed interest rate on the capitalized lease obligations varies from 7.2 to 9.0 percent.

5. Income Taxes

The Company accounts for deferred income taxes in accordance with the requirements of the Financial Accounting Standards Board Statement Number 109. This method requires the Corporation to compute its deferred tax liabilities and deferred tax assets based on the results of temporary differences in the basis of assets and liabilities between financial accounting and income tax reporting, measured by provisions of the existing tax laws. A deferred tax expense or benefit is recognized for the net change during the year in the Corporation's deferred tax liabilities and assets. The net change, together with income taxes currently payable or refundable, is the total amount of income tax expense or benefit for the year.

Components of the income tax expense (benefit) as of December 31, 2005 and 2004, are as follows:

See auditors' report.

THE CREAMERY CORPORATION
dba MATANUSKA MAID DAIRY

NOTES TO FINANCIAL STATEMENTS
December 31, 2005 and 2004

5. Income Taxes, Continued

<u>December 31, 2005</u>	<u>Deferred</u>	<u>Current</u>	<u>Total</u>
Federal	\$ (65,000)	\$ (17,700)	\$ (82,700)
State	(19,000)	(1,123)	(20,123)
	\$ (84,000)	\$ (18,823)	\$ (102,823)
 <u>December 31, 2004</u>	 <u>Deferred</u>	 <u>Current</u>	 <u>Total</u>
Federal	\$ 9,000	\$ 23,562	\$ 32,562
State	(2,000)	9,109	7,109
	\$ 7,000	\$ 32,671	\$ 39,671

The Corporation's effective tax rate is different than what would be expected if the federal statutory rate were applied to income from continuing operations primarily because of expenses deductible for tax purposes that are not deductible for financial reporting purposes and the tax benefit of alternative minimum tax carryforwards.

The net deferred tax asset in the accompanying balance sheets consists of the following components:

<u>December 31, 2005</u>	<u>Federal</u>	<u>State</u>	<u>Total</u>
Deferred tax assets, current, net of valuation allowance of \$0	\$ 180,000	\$ 47,000	\$ 227,000
Deferred tax liabilities, non-current	\$ 41,000	\$ 14,000	\$ 55,000
 <u>December 31, 2004</u>	 <u>Federal</u>	 <u>State</u>	 <u>Total</u>
Deferred tax assets, current, net of valuation allowance of \$0	\$ 181,000	\$ 45,000	\$ 226,000
Deferred tax liabilities, non-current	\$ 107,000	\$ 31,000	\$ 138,000

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THE CREAMERY CORPORATION
dba MATANUSKA MAID DAIRY

NOTES TO FINANCIAL STATEMENTS
December 31, 2005 and 2004

6. Pension Plan

Defined Contribution Pension Plan

Employees of the Company are eligible to participate in a money purchase plan after three months of service as a regular employee. The plan covers non-union employees plus the creamery department employees. Employee vesting is 0% in the first year of employment and 20% in each subsequent year of employment until fully vested. Employer contributions are 10.6% of each eligible participant's compensation. Net contributions to the plan were \$165,674 and \$173,794 for the years ended December 31, 2005 and 2004. The plan is fully funded and there are no outstanding or contingent liabilities.

Teamster Pension Plan

Dairy driver employees are covered by the Teamster Pension Plan. Employer contributions are 10.6% of each eligible participant's compensation. Net contributions to the plan were \$60,122 and \$58,818 for the years ended December 31, 2005 and 2004.

Cash or Deferred Profit Sharing Plan and Trust Under Section 401(k)

Contributions are made to the plan pursuant to Cash Deferral Arrangements with each employee. Contributions to the Plan can also be made by the employer pursuant to an annual resolution by the Board of Directors. There has been no resolution establishing employer contributions to the Trust.

7. Commitments and Concentrations

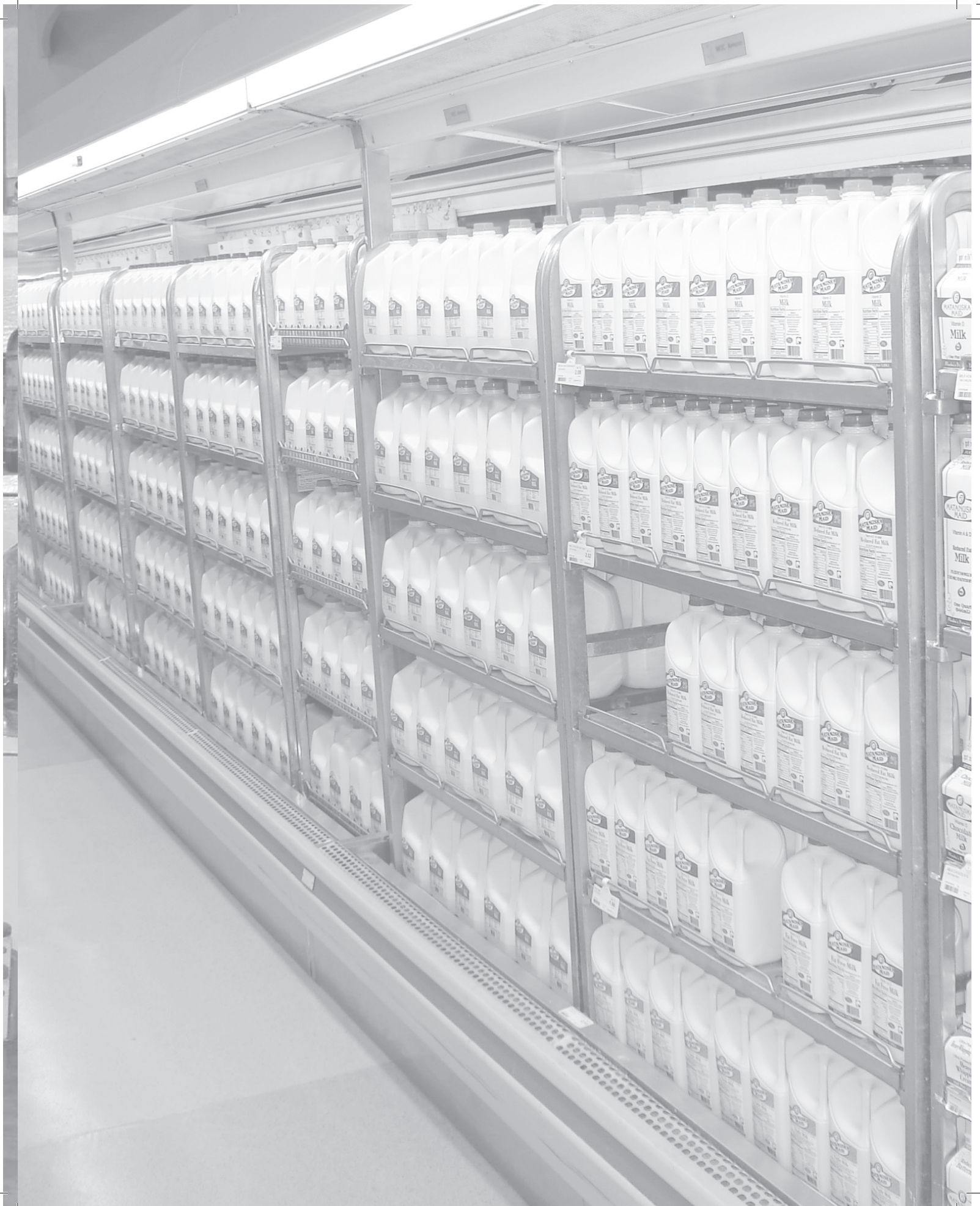
The Company is obligated to purchase all the milk that is produced by south central Alaska dairy farmers that meets its quality standards. In dollars, the Company purchased 60 and 61 percent of their milk from suppliers located outside of Alaska in 2005 and 2004 respectively. In pounds, the Company purchased 60 and 61 percent of their milk from suppliers located outside of Alaska in 2005 and 2004 respectively.

Revenue generated from two customers accounted for total sales of \$3,404,754 and \$2,173,344 in 2005 and \$4,210,714 and \$2,300,312 of total sales in 2004, respectively.

8. Contingency

The employees of the Company, excluding management and office staff, are covered under a collective bargaining agreement with the Teamsters Union Local 959. The current four-year agreement expired on March 31, 2004. Operations continue under an extension agreement.

See auditors' report.





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